



City of San Diego

CARL DEMAIIO
CITY COUNCILMEMBER-ELECT –DISTRICT 5

MEMORANDUM

DATE: September 19, 2008

TO: Mayor and City Council

FROM: Councilmember-Elect Carl DeMaio *Carl DeMaio*

RE: Budgetary Impact of the Proposed New City Hall

Following up from my previous correspondence on the proposal to build a new City Hall, I am forwarding you an assessment my office has commissioned to test the claims of “cost savings” being made by proponents of the project—as well as to show the budgetary impact facing the city over the next 15 years.

This assessment uses only numbers directly from CCDC. The assessment uncovered several errors in the numbers provided by the Center City Development Corporation (CCDC). The assessment also raises issues of financial and operational risk that the Mayor and City Council should consider.

As the attached issue brief will explain, the budget analysis reveals no real “cost savings” to taxpayers. In fact, the **cost of office space in the city’s budget will skyrocket—increasing by \$149.66 million** in the first 15 years. These increased costs will require offsetting budget cuts or encumbering revenues from elsewhere within the budget.

Moreover, on an operating cost basis, the new City Hall will **cost taxpayers \$7.21 million more** in the first 10 years than staying in the existing city buildings—with a negligible cost difference over 15 years. During the context of our review of CCDC’s numbers, we caught an error in CCDC’s cost estimate of their “base case” that resulted in an additional \$5 million in operating expenses that were not originally factored into the comparison.

I do support exploring cost-saving redevelopment options for the Civic Center, but fear there has been a rush to judgment with respect to the current project being proposed. In addition, I am concerned that CCDC has adopted a view that massive baseline increases in our office space costs are inevitable. There are countless examples of organizations

(e.g. SDCERS, San Diego EDC) facing financial problems that have flat-lined or even reduced their office space costs. Given our financial problems, the city should strive to do the same.

In the interest of getting the best options and financial information possible for the Mayor and City Council to consider, I would like to suggest the following actions:

- **Independent Financial Analysis:** CCDC has announced its intention to seek a third-party review of its financial forecast. In monitoring the statements by CCDC in public forums and its aggressive marketing effort on the project, I am concerned that CCDC has moved from an analytic role to an advocacy role.

As such I strongly recommend that the Independent Budget Analyst be asked to lead the third party review with technical support and input from CCDC. As planned by CCDC, an advisory panel should help select the outside firm to conduct the analysis. I also suggest that the City Council hold a public workshop where questions and comments can be provided to the outside firm before they conduct their analysis. This way we can be assured that the questions that members of Council and the public have are adequately explored and answered.

- **Management Task Force to Devise an Alternative Scenario:** We asked a redevelopment agency to solve our office space challenges and—surprise—we received a redevelopment answer. I am concerned that the city rushed too quickly to embrace a redevelopment solution to its office space challenges rather than starting with a management solution.

I suggest that the Mayor task a staff team to devise an aggressive alternative scenario with the goal of flat-lining our office space costs. The city's troubling financial position may require that we postpone a decision on a redevelopment project for 5-10 years. Or we may ultimately decide on a solution that mixes management solutions and a more modest redevelopment project at the Civic Center site.

- **Negotiating Position:** The city should immediately begin negotiations with our existing landlords to ascertain whether a favorable short-term solution can be achieved to flat-line our office space expenses. Conducting these negotiations will also provide more concrete financial figures for any “base case” comparison with building a new City Hall.
- **Efficiency Alternatives within the Gerding-Edlen Proposal:** As outlined in my August 11 memorandum, CCDC should continue to work with the project team to improve the financial performance of the redevelopment option. CCDC should assess the potential inclusion of the downtown library in the project, reduction of city staff and associated market value of surplus office space, use of a ground lease versus a land sale, potential benefit of New Market Tax Credits,

etc. CCDC must be given stronger direction from the Mayor and the City Council that the existing proposal does not provide sufficient cost savings and modifications and alternatives should be explored. It is my understanding that, to date, CCDC has not received that direction.

Without exploration of alternatives, the Mayor and City Council are on track for a “take it or leave it” decision in early 2009. I believe taxpayers deserve better governance on this project than they are receiving and ask that you join me in pursuing the four points outlined above.

CC: City Council Candidates, Districts 1, 3, 7
City Attorney Michael Aguirre and City Attorney Candidate Jan Goldsmith
CCDC Chairman Fred Maas